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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000693

SIPDIS

DEPT FOR EUR/CARC, SCA/CEN, S/E MORNINGSTAR;
MICHAEL P. OWENS, ACTING DIR, INR/OPS

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TAGS: [ENRG](#) [EPET](#) [AJ](#) [KZ](#) [TX](#)

SUBJECT: AZERBAIJAN: SE MORNINGSTAR, PRESIDENT ALIYEV
DISCUSS TURKMENISTAN, KAZAKHSTAN (C-RE9-01677)

REF: A. BAKU 688

[1](#)B. STATE 087261

[1](#)C. ASTANA 1449

Classified By: Classified by Charge d'Affaires Donald Lu,
Reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: President Aliyev and Foreign Minister Mammadyarov separately told Special Envoy for Eurasian Energy Richard Morningstar August 27 that, despite Baku's diplomatic efforts, Turkmenistan largely remains a mystery. The Turkmen President's recent statements on Ashgabat claims to the Azeri and Chirag (Osman and Omar) offshore oil fields, operated by BP, and demands for international arbitration run counter to Turkmenistan's interests, and suggest that the Turkmen are "afraid in all directions." Azerbaijan nonetheless is prepared to work with Turkmenistan on commercial projects, including development of the Serdar-Kyapaz offshore field. Azerbaijan also opposes President Medvedev's contention at Astrakhan that all Caspian littoral states must approve sub-sea pipeline projects. Turning to Kazakhstan, Aliyev said that over the longer term a cross-Caspian oil pipeline would be preferential to enhanced tanker traffic. The President does not expect anything of substance to come out of the proposed September 13 Caspian summit at Aktau, Kazakhstan. End Summary.

[1](#)2. (C) During an August 27 discussion with Special Envoy Richard Morningstar that focused on gas sales and transit talks with Turkey, President Aliyev discussed Azerbaijan's relations with Turkmenistan and touched on prospects for cross-Caspian oil from Kazakhstan's North Caspian fields reaching the Baku-Tbilisi-Ceyhan pipeline. The President's comments on Shah Deniz natural gas and the Southern Corridor for export to Europe are reported ref A.

Turkmenistan Still a Mystery

[1](#)3. (C) President Aliyev acknowledged that Azerbaijan had been caught off guard by Turkmenistan President Berdimuhamedov's recent outburst on Caspian delimitation. In those comments, the Turkmen President reasserted Turkmenistan's claim to rights to the Azeri and Chirag offshore oil fields, which comprise the lion's share of the Azerbaijan International Oil Consortium's (AIOC) Azeri-Chirag-Guneshli (ACG) development, operated by BP. The Turkmen President also allegedly demanded international arbitration to resolve the issue, even though odds of a

favorable outcome for Turkmenistan seem poor.

14. (C) Aliyev said that Turkmenistan's recent actions cannot easily be explained, particularly since Azerbaijan's relations with Ashgabat were normalized last year and the presidents of the countries have met twice in their respective capitals. Turkmen President Berdimuhamedov had even suggested that he would study Azerbaijan's "model" of working with foreigners, i.e., international oil companies. That exercise, however, does not seem to be taking place. Rather, Aliyev said, Turkmenistan seems to be afraid "in all directions," with change being at the core of their fear. Foreign Minister Mammadyarov, meeting separately with Special Envoy Morningstar, also said that he was puzzled. He noted that he had discussed delimitation issues on a number of occasions with his Turkmen counterpart, but such a harsh line had not been taken.

15. (C) "The current system," President Aliyev said, is not sustainable. Gas sales to Russia have been discontinued and the Iranians are not a reliable partner. Ashgabat hopes that it has sufficient financial resources to hold itself over until winter, but Azerbaijan is skeptical. A new natural gas pipeline to China, with a 40 billion cubic meter capacity, should open this winter, but Turkmenistan may not have the capacity to fill it. In this context, President Berdimuhamedov delivered his sharp words on the disputed oil fields and Caspian delimitation to Azerbaijan.

Azerbaijan Ready to Proceed on Commercial Projects

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16. (C) Azerbaijan is prepared to work with Turkmenistan on development of the Serdar-Kyapaz oil field, which lies in the heart of disputed Caspian waters, according to the President. Unfortunately, Turkmenistan has taken "no practical steps" and made "no movement." Rather, the Turkmen President only makes "statements and declarations." FM Mammadyarov separately suggested to Special Envoy Morningstar that full bilateral or multilateral agreement on delimitation may not be necessary to begin work on exploration and development of Serdar-Kyapaz. Rather, he said, work could progress on a business deal and the parties could proceed along the lines of commercial terms. This type of arrangement might also be useful in constructing a full cross-Caspian natural gas pipeline or working with companies to link existing oil and gas transport infrastructure. The Foreign Minister said that nonetheless it will take time for the Turkmen President to "get more confident and comfortable" with these ideas.

President Medvedev's Statement Not a Hindrance

17. (C) President Aliyev said that Russian President Medvedev's mid-August comments in Astrakhan on Caspian Sea delimitation and construction of sub-sea pipelines were only partially objectionable. Azerbaijan agrees, as Medvedev stated, that new multilateral initiatives could and should be based on existing agreements (which would presumably include bilateral and multilateral agreements, such as those between Azerbaijan, Russia and Kazakhstan). This message, Aliyev contended, was aimed at Iran, rather than Azerbaijan, Kazakhstan or Turkmenistan. Medvedev's other comments, which suggested that all littoral countries must agree on under-water pipeline construction, runs counter to Azerbaijan's understanding. Aliyev said that he had stated this objection directly to then-President Putin at the Tehran Caspian summit in 2007. Turkmenistan, he said, had done the same.

18. (C) Any pipeline construction now in the Caspian, the President said, is a matter of political will. "What would they do to stop us?" The President asked. "Send battleships? We have battleships, too." Foreign Minister

Mammadyarov separately sounded a similar note. Azerbaijan does not have to ask Russia for permission to work with Turkmenistan or Kazakhstan in the Caspian Sea, he said. Russia, after all, had not asked littoral states for permission to construct pipelines in the Baltic Sea or Black Sea.

Kazakhstan: More Linkage to BTC Inevitable

¶9. (C) Special Envoy Morningstar outlined his visit to Astana for President Aliyev, noting that a primary topic had been cross-Caspian oil transport (ref C). Aliyev noted that in 2009 up to 2 million tons of Kazakhstan's North Caspian oil would flow across the Caspian by tanker and link to the Baku-Tbilisi-Ceyhan pipeline. Oil companies operating in Kazakhstan, he said, would consider shipping up to 10 million tons of crude through BTC in the future. Additional cross-Caspian flows of oil are inevitable, he said, given Kazakhstan's production schedule. Aliyev also noted that Kazakhstan and international oil companies could tap into the Baku-Supsa (Georgia Black Sea) oil pipeline or Azerbaijani rail service to Batumi (Georgia Black Sea), as well as BTC. This could be especially attractive, the President said, as expansion of the Caspian Pipeline Consortium (CPC) "is still problematic."

Pipeline Better Than Tankers

¶10. (C) In the long haul, he suggested, a cross-Caspian oil pipeline would be more beneficial than an enhanced tanker fleet. Larger tankers, at 60,000 metric tons or more, would probably not be feasible, and may not be needed. Azerbaijan has an existing fleet of 6-7 smaller tankers -- up to 13,000 metric tons. These tankers, if managed properly, could transport up to 20 million tons per year. Beyond that

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capacity, the President said, a sub-sea pipeline would be more economical. Responding to a question about political objections to a trans-Caspian pipeline, the President said that, in his view, the Russians will oppose cross-Caspian oil transport in any manner. Thus, it is just a matter of political will, particularly in Kazakhstan, to move forward on a pipeline.

Caspian Summit Unlikely to Be Productive

¶11. (C) President Aliyev suggested that the upcoming Caspian Summit, which apparently will not include Iran, will not be productive. Kazakhstan reportedly has offered to host the event in Aktau on September 13. On the official front, he said, there is a lack of progress on delimitation. For the summit, Kazakhstan has not produced a full agenda. Azerbaijan, he said, had initially offered to host a Caspian summit in 2008, but later declined. "Nothing significant was going to be achieved," he said. Neither the President nor the Foreign Minister could explain the proposed exclusion of Iran in the upcoming summit. Nonetheless, President Aliyev has tentative plans to attend, and will host President Nazarbayev in Baku on September 30.

Comment: Aliyev Pushes Political Will in Central Asia

¶12. (C) President Aliyev showed no interest in pursuing international arbitration with Turkmenistan to resolve differences over the Azeri and Chirag or, for that matter, Serdar-Kyapaz oilfields. Rather, he seemed inclined to ignore President Berdymuhamedov's latest fiery rhetoric. In contrast, the Foreign Minister proposed additional diplomacy with Ashgabat to put forward commercial proposals to co-develop Caspian fields. He suggested that the call for arbitration might be a face saving measure in Turkmenistan's

bid to make and abide by decisions independent of Moscow and Tehran. He stated that such a face saving measure could seal the deal, after a business solution and been agreed. This approach seems much more constructive. Baku's business community continues to be very interested in commercial opportunities in Turkmenistan, but mixed on the business climate. Many echo the thoughts of President Aliyev, seeing Turkmenistan in a cloud of mystery. Others, however, suggest that Berdimuhamedov is clamping down on corruption and gradually making moves to accept foreign investment. President Aliyev's statements on a cross-Caspian oil pipeline were bold. He is no doubt aware of the external political difficulties that Kazakhstan faces on this front, and perhaps found it convenient to call Nazarbayev on the carpet via his American guests.

¶13. (U) This cable was cleared by Ambassador Morningstar's staff.
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